

# M&A Plans

## and Other Strategic Growth Initiatives

Business Management Reality  
for the New Economic Reality



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# M&A Plans and Other Strategic Growth Initiatives

Business Management Reality for the New Economic Reality

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processes. We recently changed our ERP system, which should allow us to give more timely and accurate information to our customers.”

GSC has about 450 total employees. There are about 95 full-time GSC employees, and the rest are temporary workers and independent contractors. Lower volumes forced GSC to reduce its workforce, but the reductions were primarily temporary workers. Lesser says, “...we have not resorted to any major layoffs yet, but we are considering the possibility of reducing base salaries or deferring company matches to employee 401(k) plans.”

GSC is making a more concentrated effort to go after new business, which could include acquiring one or more key players in the industry that have strategic customer accounts. Lesser says “the business model itself has not really changed (due to the current recession). The focus of attention is what changes.”

**M&A plans** – GSC Logistics would consider an acquisition that would add customers. The company is not actively seeking a particular target firm at this time, but Lesser says “we are in the preliminary stages and are working on getting to the table.”

### III. Benefiting from the New Accountability

#### A. Project, Time & Cost (PT&C)

**Company description** – PT&C is a privately held cost engineering and consulting company that has annual revenues under \$100 million ([www.ptcinc.com](http://www.ptcinc.com)). The company has two divisions. The Cost Engineering Division represents about 75% of the total business. Of this 80% of the business is from government contracts (primarily through the Army Corp of Engineers). The Forensic Consulting Division represents about 25% of the business. Most of this business is with insurance companies that hire PT&C on a consultation / project basis. PT&C then assists claims adjustors with claims, such as those arising from storms, floods, and wind or water surge.

**Context** – Gary Meyer, executive VP & CFO says “we feel very fortunate to be in the spot we are currently in. Washington’s new focus on accountability is very good for our company.” However, PT&C is cautiously optimistic. The managers are forecasting a 30% growth rate for 2009 and beyond even though parts of the industry are slowing down (e.g., construction management of commercial projects and commercial insurance). Meyer believes PT&C’s niche is OK. Environmental remediation, waste removal, nuclear work and the “green” initiative are areas that Meyer believes will provide more opportunities. Meyer says “PT&C is growing and is seeking high-quality talent.”

**Corporate strategy** – PT&C hasn’t adjusted its business model in response to the current recession. Meyer is promoting PT&C’s ability “to save clients time and money. PT&C is a ‘value add,’ and potential customers should be conscious of project scheduling and accountability.”

Meyer believes cost management is “very important every year regardless of the economic climate. Periodically we will do a deep dive into a specific unit or area. This usually starts with the biggest money producing area first, then we will look for inconsistencies (or things that don’t feel right).” PT&C also looks at its risk structure, and they have tried to diversify their customer base. They also have tightened their controls, are backing up all their systems and have a disaster recovery plan (to protect against outages and downtime).

“We feel very fortunate to be in the spot we are currently in. Washington’s new focus on accountability is very good for our company.”

Gary Meyer  
Executive VP & CFO  
Project, Time & Cost (PT&C)

**M&A plans** – PT&C is looking to expand internationally. At the end of 2007 they expanded into the U.K. Now they are looking to expand throughout Europe. Ideally, an acquisition should either increase their customer base, or add to their areas of expertise (e.g., by acquiring a company with complementary services).

Debt financing is a real constraint right now, so PT&C likely would consider a combination of debt and stock for any transaction. However, issuance of private company stock as part of a transaction is trickier and valuation is always an issue, so the approach would be to limit the use of stock as much as possible. PT&C would generally require that the key managers or owners of the acquired company stay on as employees of PT&C.

## B. Foth & Van Dyke LLC

**Company description** – Foth & Van Dyke, LLC is headquartered in Green Bay, Wis. ([www.foth.com](http://www.foth.com)). The firm uses the name Foth for branding purposes. Foth is an engineering, science and construction services consulting firm that generates about \$100 million in annual revenue. The company is made up of three main businesses: infrastructure (about 20% of sales), environmental (20%) and production solutions (60%).

**Context** – Howard Bornstein, the company's CFO, has been with Foth since 2002. He says "not much has changed in the big picture as a result of the current recession." Several of their production clients have cut back on their capital expenditures, so Foth has had to restructure how they sell equipment. Foth is now raising money from private equity sources and moving into leasing relationships. Bornstein can see some short-term benefit from the stimulus package but it's "not a panacea."

**Corporate Strategy** – Bornstein says "it's nice to tell people you are growing, but the company is looking to grow its existing businesses rather than expand into other areas. We want to find good companies that we want to work with and sell them our services, not find services to sell to everyone."

Bornstein believes the company is much stronger currently than in the past, but the company has had layoffs in the last six months. They also have frozen compensation and instituted a 50% cutback in annual incentive bonuses. Bornstein believes the managers are "managing the labor in this business more than anything else." People are the greatest cost to the company, and occupancy costs are the second greatest cost. Foth uses flex labor and contractors to manage peaks.

**M&A plans** – Foth currently is in the process of finishing their fourth deal in the last seven years. Foth wants the seller to "have skin in the game" according to Bornstein. They want the seller to see that although they are the seller now, if they stay on board they would become a buyer (with Foth) in the future.

Foth is looking for acquisitions that are close to the geographic markets they are trying to penetrate or expand. They also are looking at some "strategic hires." For example, a recent deal in the Midwest originally was done for geographic reasons. However, Foth not only achieved its geographic objective, but also acquired several young, talented managers. One of the managers acquired in this deal is now the head of the Infrastructure division.

Ideally, any agreements would be financed through working capital, but Foth does have a line of credit (up to \$10-\$20 million) if the need arises. They would also consider issuing stock if

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Howard Bornstein  
CFO  
Foth & Van Dyke, LLC